



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ [www.house.gov/budget\\_democrats](http://www.house.gov/budget_democrats)

January 6, 2003

### Job Creation in the Democratic Stimulus Plan

The Democratic economic stimulus plan will create more than a million jobs and build the momentum for a self-sustaining recovery.

- ***Unemployment Insurance*** — In November more than 8.5 million Americans were unemployed; more than 3.4 million were collecting unemployment insurance. The vast majority of those seeking work and collecting unemployment insurance are struggling to get by. The unemployment insurance dollars they would collect from an extension of unemployment benefits were dollars paid on their behalf in payroll taxes, dollars they could draw if they became unemployed, so long as they were looking for work. From 1995 through 2000, the federal unemployment insurance trust funds built up surpluses for one main purpose: to fund unemployment benefits when the economy turned down. The federal unemployment insurance trust fund had an available balance of \$26 billion at the end of FY 2002. Extension of unemployment insurance would draw \$18 billion from the federal trust fund between now and June 30, 2003. Almost all of the \$18 billion in extended benefits would be spent to meet basic needs. This spending would boost the incomes of those who sell and produce goods and services, and encourage them in turn to invest and hire. Unemployment benefits are a proven counter-cyclical tool. Experience has shown that they help a weak economy rebound and generate jobs.
- ***Income Tax Relief*** — An individual income tax rebate will stimulate the economy in the same way, increasing disposable incomes by nearly \$60 billion and boosting consumer spending, encouraging sellers and producers of goods and services to invest and hire to meet increased demand.
- ***Investment Incentives*** — Doubling the amount of small-business investment that can be expensed will lower the taxes of small businesses, increase their cash flow, and bolster their ability to invest and create jobs. This proposal will also encourage small businesses to invest now because the higher limit for expensing is available in 2003 only. Similarly, the Democratic proposal to increase the bonus depreciation percentage for larger businesses in 2003 will encourage those firms to increase investment now, when the economy is weak, by an estimated \$30 billion.

(OVER)

- ***Special Aid, Including the States*** — Fiscal assistance will enable states and localities to make investments in homeland security, highways, and transportation, with the secondary benefit of meeting national needs. Fiscal assistance will also help the states maintain vital services like Medicaid in which state and federal government have a shared interest. Not only will fiscal assistance to the states have a stimulative effect, but it also will mitigate state tax hikes and spending cuts that could impede recovery.
- ***Jobs Created*** — The first-year stimulus of the Democratic proposal, \$136 billion, is slightly more than one percent of the GDP. If employment increases by the same percentage, that will yield 1.7 million new jobs. A simulation of the Democratic stimulus package on a recognized and reputable economic model, developed by Yale economics professor Ray C. Fair, yields estimates of from 800,000 to 1.7 million jobs. A calculation based on the estimated relationship between changes in the GDP and changes in employment, “Okun’s Law” (propounded by Arthur Okun, the late Chairman of the Council of Economic Advisers under President Johnson) produces an estimate of 1.6 million new jobs.

The Bush Administration estimated the number of jobs created by 2002 because of the 2001 tax cuts (“President Bush’s 2001 Tax Relief Softens the Recession,” Council of Economic Advisers, February 14, 2002). Using their methodology, the Democratic stimulus plan would create almost 850,000 new jobs.